

**STATE OF NORTH DAKOTA  
BISMARCK, NORTH DAKOTA**

**REPORT OF EXAMINATION  
OF  
PASSPORT INSURANCE COMPANY  
BISMARCK, NORTH DAKOTA**

**AS OF  
DECEMBER 31, 1996**

STATE OF NORTH DAKOTA  
DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

**PassPort Insurance Company**

**Bismarck, North Dakota**

as of December 31, 1996, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto  
set my hand and affixed my official  
seal at my office in the City of  
Bismarck, this \_\_\_\_\_ day of  
\_\_\_\_\_, 1998.

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Glenn Pomeroy  
Commissioner of Insurance

## TABLE OF CONTENTS

SCOPE OF EXAMINATION .....	1
HISTORY .....	2
General .....	2
Capital Stock .....	2
Dividends to Stockholders .....	2
MANAGEMENT AND CONTROL .....	2
Stockholders .....	2
Directors .....	2
Officers .....	3
Conflict Of Interest .....	3
Corporate Records .....	4
AFFILIATED COMPANIES .....	4
FIDELITY BOND AND OTHER INSURANCE .....	5
STATUTORY DEPOSIT .....	5
INSURANCE PRODUCTS AND RELATED PRACTICES .....	5
Policy Forms And Underwriting .....	5
Territory And Plan Of Operation .....	5
REINSURANCE .....	5
ACCOUNTS AND RECORDS .....	5
FINANCIAL STATEMENTS .....	6
COMMENTS TO THE FINANCIAL STATEMENTS .....	10
Bonds .....	10
Capital Stock and Contributed Surplus .....	10
CONCLUSION .....	11
COMMENTS AND RECOMMENDATIONS .....	12

Bismarck, North Dakota  
August 14, 1997

Honorable Glenn Pomeroy  
Commissioner of Insurance  
State of North Dakota  
600 East Boulevard Avenue  
Bismarck, ND 58505

Dear Sir:

Pursuant to your instructions and in accordance with the North Dakota Insurance Code and resolutions adopted by the National Association of Insurance Commissioners, an examination was made of the condition and affairs of

**PassPort Insurance Company**

**Bismarck, North Dakota**

as of December 31, 1996.

The PassPort Insurance Company, hereinafter referred to as the Company, was last examined as of April 11, 1990, by a representative of the State of North Dakota. That examination constituted the prelicensing examination of the Company.

**SCOPE OF EXAMINATION**

This examination was a financial condition examination conducted in accordance with N.D.C.C. § 26.1-03-19.3 and observed guidelines and procedures contained in the NAIC *Financial Condition Examiners Handbook*. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review the corporate affairs and insurance operations. The current examination covers the period April 12, 1990, through December 31, 1996, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

Examination procedures included a verification and evaluation of assets, a determination of liabilities, and review of corporate records, claim files and other records relating to Company operating practices.

## **HISTORY**

### **General**

The Company was incorporated on May 30, 1989, pursuant to the North Dakota Business Corporation Act, N.D.C.C. Chapter 10-19.1, and N.D.C.C. Chapter 26.1-05.

Prior to May 5, 1995, the ownership of the Company changed three times. The Company was initially owned by Peter Halmos (50 percent) and Steven Halmos (50 percent). Ownership then changed to Peter Halmos (25 percent), Steven Halmos (50 percent), and Privacy Protection Services, Inc. (25 percent); Privacy Protection Services, Inc., being solely owned by Peter Halmos. Ownership again changed with Peter Halmos acquiring a 100 percent interest. On May 5, 1995, Continuity Marketing Corporation became the sole owner of the Company.

The Company has been inactive since its formation and the primary location of the its books and records is in Boca Raton, Florida.

### **Capital Stock**

The corporation is authorized to operate on the stock plan. The aggregate number of shares which the corporation has authority to issue is 5,000 shares of single class (common) and with a par value of \$100 per share. All of the authorized shares were outstanding at December 31, 1996. Those shares were owned by Continuity Marketing Corporation, a Florida corporation.

### **Dividends to Stockholders**

During the period under examination, no dividends were paid to the stockholders.

## **MANAGEMENT AND CONTROL**

### **Stockholders**

The Company, as defined in its Bylaws is owned by the stockholders. It is noted that Continuity Marketing Corporation, Boca Raton, Florida is the owner of 5,000 shares (100 percent) of the Company's outstanding stock.

The annual meeting of the stockholders shall be held on the first Thursday in the month of March in each year.

### **Directors**

The Bylaws provide that the number of directors of the corporation shall be three who shall hold office until the next annual meeting of stockholders and until their successor shall have been elected and qualified.

The following directors were serving as of the date of this examination:

<u>Name and Address</u>	<u>Business Affiliation</u>
Peter Halmos Ft. Lauderdale, Florida	President, Secretary, and Treasurer of the Company
David Vanderscoff Bismarck, North Dakota	Vice President of the Company and Management Consultant

The Company is not in compliance with Article VI, Section 2 of their Bylaws regarding the number of directors. **It is recommended that the Company comply with the number of directors as stated in their Bylaws.**

### **Officers**

The Bylaws provide that the officers of the Company shall be a President, two Vice Presidents, a Secretary, and a Treasurer. The offices of President, Secretary, and Treasurer may be held by the same person.

Officers serving as of the date of this examination were as follows:

Peter Halmos Boca Raton, Florida	President, Secretary, and Treasurer
Robert Arnold Boca Raton, Florida	Vice President
Bill McKinney Boca Raton, Florida	Vice President
David P. Vanderscoff Bismarck, North Dakota	Vice President

### **Conflict Of Interest**

The Company does not maintain a formal conflict of interest policy and an established procedure for disclosure of any material interest or affiliations that might tend to influence a board member, officer, or employee in the performance of their duties. It is noted that an officer of the Company is holding a similar position with another company which is operating in the same business.

**It is recommended that the Company establish and implement a procedure for disclosing, on an annual basis, potential conflicts of interest of its officers, directors and key employees.**

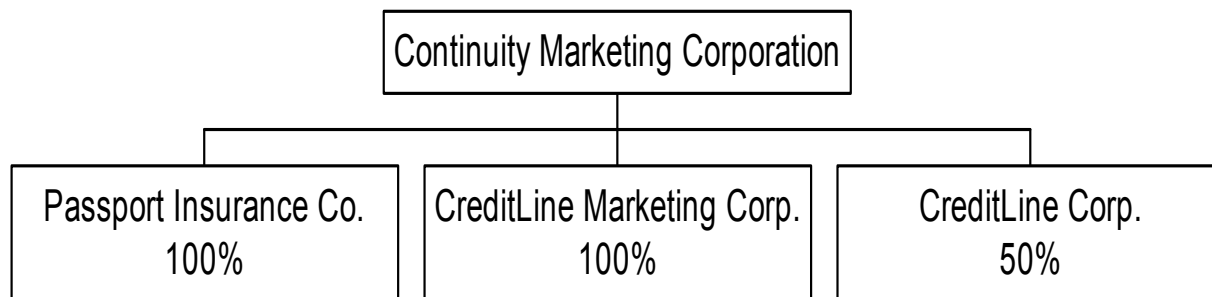
## **Corporate Records**

The following amendment to the Bylaws was adopted during the period under examination but was not submitted to the Insurance Department.

Article II      The annual meeting of the stockholders was changed from the first Thursday in the month of January to the first Thursday in the month of March.

**It is recommended that the Company file any amendments to its Bylaws with the North Dakota Insurance Department.**

The minutes of the Board of Directors and Stockholders were reviewed for compliance with the Bylaws, Articles of Incorporation, and statutory requirements. It was noted that investments made by the Company during the period under review were not authorized by the Board of Directors as required by N.D.C.C. § 26.1-05-18.



**It is recommended that the Company comply with the investment authorization provision of N.D.C.C. § 26.1-05-18.**

## **AFFILIATED COMPANIES**

The Company is a wholly-owned subsidiary of Continuity Marketing Corporation. The following schedule presents the identities of and relationships between the Company and its parent and affiliates.

Continuity Marketing Corporation is a vehicle for marketing consumer services and credit card enhancement services to the public. Ownership of Continuity Marketing Corporation is held by Peter Halmos (50 percent), and his minor-aged sons, Gregory Halmos and Nicholas Halmos, who each hold a 25 percent interest.

The Company is a member of a holding company system and subject to registration pursuant to N.D.C.C. Chapter 26.1-10. The Examiner noted that CreditLine Marketing Corp. and CreditLine Corp. were not included as part of the holding company system listed on Schedule Y of the Company's Annual Statements. **It is recommended that the Company properly disclose all holding company affiliations and transactions on Schedule Y of the Annual Statement.**

A management agreement dated December 10, 1990, was executed between the Company and High Plains Capital Corporation calling for High Plains Capital Corporation to provide accounting and management services to the Company. Peter Halmos holds at least a 50 percent interest in High Plains Capital Corporation. During 1996, no payments relating to the management agreement were made to High Plains Capital Corporation.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company does not have a fidelity bond nor does it have any employees.

The Company was covered under commercial general liability insurance policies issued to Halmos Trading and Investment Company, a real estate partnership in which Peter Halmos holds a 50 percent interest.

## **STATUTORY DEPOSIT**

Deposits maintained by or through regulatory agencies are as follows:

<b>State</b>	<b>Type of Asset</b>	<b>Market Value</b>	<b>Statement Value</b>
North Dakota	Bonds	\$1,074,842	\$1,034,956
North Dakota	CD	130,194	130,194
Totals		\$1,205,036	\$1,165,150

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Policy Forms And Underwriting**

The Company's does not have any issued policies.

### **Territory And Plan Of Operation**

The Company is licensed only in the State of North Dakota.

## **REINSURANCE**

The Company did not cede any business during the period under review.

## **ACCOUNTS AND RECORDS**

The Examiner obtained a trial balance for 1996 and traced it to the Annual Statement with no exceptions noted.



The Company did not file a risk-based capital report as required by N.D.C.C. § 26.1-03.1-02. **It is recommended that in the future the Company file a risk-based capital report as required by the statute.**

## **FINANCIAL STATEMENTS**

The following pages present the Company's Statement of Assets, Liabilities, Surplus, and Other Funds as of December 31, 1996, as determined by this examination. The balance sheet is followed by the following statements and reconciliations:

Summary of Operations For the Year Ended December 31, 1996

Capital and Surplus Account For the Year 1996

Reconciliation of Capital and Surplus Account, April 10, 1990, through December 31, 1996

**PassPort Insurance Company**  
**Statement of Assets, Liabilities, Surplus, and Other Funds**  
**as of December 31, 1996**

**Assets**

	<b><u>Ledger Assets</u></b>	<b><u>Nonledger Assets</u></b>	<b><u>Assets Not Admitted</u></b>	<b><u>Net Admitted Assets</u></b>
Bonds	\$1,034,955			\$1,034,955
Cash on Deposit	399,059			399,059
Interest due and Accrued	<u>20,875</u>			<u>20,875</u>
Total	<u>\$1,454,889</u>			<u>\$1,454,889</u>

**Liabilities**

Other Expenses	\$ 4,940
Payable to Parent	<u>325</u>
Total Liabilities	<u>\$ 5,265</u>
Common Capital Stock	\$ 500,000
Gross Paid In and Contributed Surplus	677,854
Unassigned Surplus	<u>271,770</u>
Surplus as Regards Policyholders	<u>\$1,449,624</u>
Total Liabilities, Surplus, and Other Funds	<u>\$1,454,889</u>

**PassPort Insurance Company  
Summary of Operations  
For the Year Ended December 31, 1996**

**Investment Income**

Net Investment Income Earned	<u>\$52,396</u>	
Net Investment Gain or (Loss)		<u>\$52,396</u>
Net Income Before Federal Income Taxes		\$52,396
Federal Income Taxes Incurred		<u>0</u>
Net Income		<u><u>\$52,396</u></u>

**Capital and Surplus Account for the Year 1996**

Capital and Surplus, December 31, Previous Year		\$1,397,268
Net Income	\$52,396	
Prior Year Adjustment	<u>(40)</u>	
Change in Policyholder Surplus for the Year		<u>52,356</u>
Capital and Surplus, December 31, Current Year		<u><u>\$1,449,624</u></u>

**PassPort Insurance Company**  
**Reconciliation of Capital and Surplus Account**  
**April 10, 1990, through December 31, 1996**

	1990	1991	1992	1993	1994	1995	1996
Capital and Surplus, December 31, Previous Year		\$1,222,615	\$1,261,314	\$1,291,787	\$1,323,552	\$1,344,654	\$1,397,268
Net Income	\$ 35,106	27,709	30,473	31,765	21,102	52,614	52,396
Net Unrealized Capital Gains or (Losses)		10,990					
Change in Non- Admitted Assets							
Paid in Capital	500,000						
Paid in Surplus	677,854						
Prior Year Adjustment							(40)
Unaccounted Difference	9,655						
Net Change in Capital and Surplus for the Year	\$1,222,615	\$ 38,699	\$ 30,473	\$ 31,765	\$ 21,102	\$ 52,614	\$ 52,356
Capital and Surplus, December 31, Current Year	\$1,222,615	\$1,261,314	\$1,291,787	\$1,323,552	\$1,344,654	\$1,397,268	\$1,449,624

## COMMENTS TO THE FINANCIAL STATEMENTS

Financial statement balances at December 31, 1996, are commented upon only if financial changes, recommendations, or special explanations are considered necessary.

### Bonds

**\$1,034,955**

The admitted value of bonds was determined by this examination to be \$1,034,955, the same amount as reported by the Company in its 1996 Annual Statement. The bonds are held by the Bank of North Dakota under a custodial agreement. All of the bonds are pledged to the North Dakota Insurance Department.

The custodial agreement does not contain the following safeguards as required by the NAIC Examiners Handbook:

1. Custodian will indemnify the insurance company for any loss caused by negligence or dishonesty of the bank or trust company while securities are in its custody; and
2. The securities will be promptly replaced if there is a loss for which the bank or trust company is obligated to indemnify the insurance company.

**It is recommended that the Company amend its custodial agreements to include the safeguards required by the NAIC.**

The *Annual Statement Instructions* require insurers to use the *Valuations of Securities* manual to determine values for certain securities. For investments not listed, companies are required to follow the instructions set forth in the *Purposes and Procedures of the SVO* in submitting those investments for valuation. This examination noted that three issues were not listed in the *Valuations of Securities* manual and were not exempted from SVO valuation. **It is recommended that the Company submit unlisted securities for valuation as required by N.D.C.C. § 26.1-03-02.1.**

The admitted value of bonds owned by the Company at December 31, 1996, represents 71 percent of the Company's admitted assets. All of the Company's bonds were rated as investment grade. The book value, amortized value, market value, cost, and par value of the bond portfolio are as follows at December 31, 1996:

Amortized or Statement Value	NAIC Market Value	Actual Cost	Par Value
\$1,034,956	\$1,074,842	\$1,150,608	\$1,020,000

### Capital Stock and Contributed Surplus

**\$1,177,854**

On its 1996 Annual Statement, the Company overstated capital stock by \$687,509, understated contributed capital by \$677,854, and understated unassigned surplus by \$9,655 due to a misclassification. The Examiner's reclassification of these amounts has no impact on the total amount of "Surplus as Regards Policyholders."

## CONCLUSION

The financial condition of the Company, as of December 31, 1996, as determined by this examination is summarized as follows:

ADMITTED ASSETS		<u>\$1,454,889</u>
Total Liabilities	\$ 5,265	
Surplus as Regards Policyholders	<u>1,449,624</u>	
LIABILITIES, SURPLUS, AND OTHER FUNDS		<u>\$1,454,889</u>

Since the last examination conducted as of April 11, 1990, the Company's admitted assets have increased \$266,049, its total liabilities have increased \$4,065, and its surplus as regards policyholders has increased \$267,249.

The courteous cooperation extended by the officers of the Company during the course of the examination is gratefully acknowledged.

Respectfully submitted,

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Diane Shervey, AFE  
Examiner  
North Dakota Insurance Department

## COMMENTS AND RECOMMENDATIONS

- Page 3      It is recommended that the Company establish and implement a procedure for disclosing, on an annual basis, potential conflicts of interest of its officers, directors and key employees.
- It is recommended that the Company comply with the number of directors as stated in their Bylaws.
- Page 4      It is recommended that the Company file any amendments to its Bylaws with the North Dakota Insurance Department.
- It is recommended that the Company comply with the investment authorization provision of N.D.C.C. § 26.1-05-18.
- It is recommended that the Company properly disclose all holding company affiliations and transactions on Schedule Y of the Annual Statement.
- Page 5      It is recommended that the Company comply with N.D.C.C. § 26.1-03.1-02, requiring the Company to file a risk-based capital report.
- Page 10     It is recommended that the Company amend its custodial agreements to include the safeguards required by the NAIC, as follows:
1.       Custodian will indemnify the insurance company for any loss caused by negligence or dishonesty of the bank or trust company while securities are in its custody; and
  2.       The securities will be promptly replaced if there is a loss for which the bank or trust company is obligated to indemnify the insurance company.
- It is recommended that the Company submit unlisted securities for valuation by the Securities Valuation Office as required by N.D.C.C. § 26.1-03-02.1.